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UNCLAS ALMATY 002122

SIPDIS

DEPT PASS TO EUR/CACEN MUDGE
DEPT PASS TO OPIC - BALLINGER
DEPT PASS TO TDA FOR STEIN, EXIM FOR GLAZER
DEPT PASS TO AID - EE-PHILLIPS/RUSHING
TREASURY FOR OASIA/VELTRI
USDOC FOR 4231/ITA/MAC/MLONDON, 4201/BISNIS
USDOC FOR 6110/ITA/TD/BI/RHALPERN
ANKARA FOR CFC

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SUBJECT: KAZAKHSTAN ECONOMIC AND ENERGY UPDATE

May 15 - May 28, 2005

1. Summary: This information is drawn primarily from the Kazakhstani local press, and has not been checked for accuracy. The opinions and policies expressed in this report are those of the authors, not the U.S. Government.

- Government Submitted Draft Amendments to Tax Code
- Pension Assets to Finance Infrastructure Projects
- Ablyazov Becomes New Chairman of Bank Turan Alem
- Kazakhstan Negotiates WTO Accession with China
- Growth of Kazakhstani Communication Services
- Mazhilis Approves PSA Draft
- Kazakhstan to Acquire More Tankers
- International Standards for Oil and Gas Industry
- New Association of Kazakhstani Mining Companies

Government Submitted Draft Amendments to Tax Code

2. Minister of Economy and Budget Planning Kairat Kelimbetov presented draft amendments and additions to the Tax Code to the Parliament. The package contains a "flexible scale" of taxation for subsurface users developing "small and mid-sized deposits" under production sharing agreements (PSAs), a special tax regime for the launch of the "Ontustik" special economic zone in Southern Kazakhstan Oblast and preferential tax treatment for small and mid-sized business enterprises. (Interfax - Kazakhstan, May 16)

Pension Assets to Finance Infrastructure Projects

3. "It is necessary that the whole infrastructure development of the country, in particular (that) related to development of railways, energy, and infrastructure of hydrocarbons rests on the use of assets of domestic saving pension funds (SPF)...The legal framework is available in this respect," Prime Minister Danial Akhmetov announced on May 17. The competent agencies "should prepare a set of measures related to use of pension funds." The construction of the Charsk - Ust-Kamenogorsk railway in Eastern Kazakhstan will be the first project financed by SPFs. (Interfax - Kazakhstan, May 18)

Ablyazov Becomes New Chairman of Bank Turan Alem

4. Mukhtar Ablyazov was elected chairman at the May 20 session of Bank Turan Alem (BTA)'s Board of Directors. Ablyazov, who turned 42 this May, was the head of the national electric grid company, KEGOC in 1996-97, and served as the Industry and Trade Minister in 1998-99. In 2002 Ablyazov was sentenced to a six-year prison term for abuse of office while he was a public official, but he was pardoned following an appeal to the President. After his release, Ablyazov said he would no longer engage in politics. He opened a business in Moscow where he successfully implemented high-rise construction projects. Top managers at BTA believe that the bank will gain significantly with the appointment of Ablyazov. (Interfax - Kazakhstan, May 20)

Kazakhstan Negotiates WTO Accession with China

5. The first round of bilateral negotiations with China on Kazakhstan's accession to the World Trade Organization was held May 23-24 in Beijing, the Ministry of Foreign Affairs press service reported. Both sides positively evaluated the development of economic relations and the dynamic growth of mutual trade that hit \$4.5 billion last year. PRC Commerce Minister Bo Xilai confirmed China's readiness to assist Kazakhstan's efforts to enter the WTO. (KazInform - Kazakhstan, May 25)

Growth of Kazakhstani Communication Services

16. Over the first four months of 2005, national communication enterprises rendered services valued at KZT 60 billion (approximately \$454.5 million), a 24.6% increase over January-April 2004. 23.9% of revenues came from international communications services, 37.2% were from wireless communications, and 9.2% originated from local telephone communications services. Compared to January-April of 2004; the volume of mobile phone communication increased by 49.3%, and revenues from Internet services doubled. (Golden Eagle Service, May 27)

Mazhilis Approves PSA Draft

17. On May 18 the Mazhilis (lower chamber of the Parliament) approved the draft law on Production Sharing Agreements (PSAs) for offshore oil operations. The document has been submitted to the Senate (upper chamber) for approval. The draft spells out PSA parties' rights and responsibilities in the Kazakhstani sector of the Caspian (KSCS) and Aral Seas. The state oil and gas company KazMunayGaz will have at least 50% in KSCS projects. The draft entitles investors operating under offshore exploration contracts to choose the type of contract to governing oil recovery - either a PSA or a contract with other terms. (Interfax - Kazakhstan, May 23)

Kazakhstan to Acquire More Tankers

18. The Vyborg shipyard (Russia) plans to sign an agreement with Kazakhstani "Mobilex Energy Ltd." for construction of five 12,000 ton tankers. The contract is a part of the GoK program for the construction of the Kazakhstani tanker fleet through 2010. The total deadweight tonnage of the Caspian fleet is to be 300,000 tons. The approximate cost of the project is \$250 million. (Interfax - Kazakhstan, May 28)

International Standards for Oil and Gas Industry

19. Galymzhan Dugalov, Director-General of the Kazakhstan Institute of Standardization and Certification, stated during an international seminar on standardization in the oil and gas industry that "prior to admission to the WTO, Kazakhstan needs to unify its standards. This will (enable) the access of Kazakhstani companies to the world oil market". He noted also that, "the degree of coordination of Kazakhstani standards to international ones in the real sector of Kazakhstani economy was 54% as of January 1, 2005." (Interfax - Kazakhstan, May 25)

New Association of Kazakhstani Mining Companies

10. A constitutive congress of the Association of Mining and Ore Mining Companies of Kazakhstan took place on May 27 in Astana. Nikolai Radostovets, the president of the Union of Kazakhstani Manufacturers and Exporters, who was elected to chair the Association, announced that the "key task of the established association consisting of thirty-two mining companies is to defend their interests at the government level." The Association's members included Kazakhmys (a copper mining corporation), Bakyrchik Mining Company, the Eurasian Industrial Association, Bogatyr Access Komir, NOVA Zinc, Charaltyn (a gold mining company) and Vasilkov GOK. (Interfax-Kazakhstan, May 27)

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